

Message Text

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ACTION EUR-25

INFO OCT-01 EA-11 ADP-00 AGR-20 CEA-02 CIAE-00 COME-00

DODE-00 EB-11 FRB-02 H-02 INR-10 INT-08 L-03 LAB-06

NSAE-00 NSC-10 PA-03 RSC-01 AID-20 CIEP-02 SS-15

STR-08 TAR-02 TRSE-00 USIA-12 PRS-01 OMB-01 RSR-01

/177 W

----- 110306

R 042044 Z MAY 73

FM AMEMBASSY LONDON

TO SECSTATE WASHDC 955

INFO AMEMBASSY BERN

AMEMBASSY BONN

AMEMBASSY BRUSSELS

USMISSION EC BRUSSELS

AMEMBASSY COPENHAGEN

AMEMBASSY DUBLIN

AMEMBASSY LUXEMBOURG

AMEMBASSY PARIS

USMISSION OECD PARIS

AMEMBASSY ROME

AMEMBASSY STOCKHOLM

AMEMBASSY THE HAGUE

AMEMBASSY TOKYO

UNCLAS SECTION 1 OF 2 LONDON 05214

DEPARTMENT PASS TREASURY, COMMERCE, FRB.

E. O. 11652: N/A

TAGS: ECON, UK

SUBJECT: ECONOMIC DEVELOPMENTS-- WEEK ENDING MAY 4

BEGIN SUMMARY: STERLING REACHED \$2.4936-1/2 ON WEDNESDAY,
MAY 2, THE HIGHEST LEVEL SINCE EXCHANGE MARKETS WERE
CLOSED IN MARCH. U. K. OFFICIAL RESERVES ROSE BY \$82 MILLION
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DURING APRIL TO STAND AT \$6,118 MILLION AT THE END OF THE MONTH. THE CONFEDERATION OF BRITISH INDUSTRY REPORTS THAT U. K. ECONOMY IS NOW ENJOYING ONE OF THE FASTEST RATES OF RECOVERY EVER AND SEES RECORD INCREASES IN PRODUCTION, NEW ORDERS, INVESTMENT, EMPLOYMENT AND GENERAL BUSINESS CONFIDENCE WITHIN MANUFACTURING INDUSTRY. THE NATIONAL ECONOMIC DEVELOPMENT OFFICE (NEDO) ALSO HAS MADE A VERY FAVORABLE FORECAST ON THE ECONOMY AND SEES GROWTH RATE AS EXCEEDING GOVERNMENT'S 5 PER CENT TARGET. CONSUMER CONFIDENCE, IN FINANCIAL TIMES SURVEY, CONTINUES TO IMPROVE ON AVERAGE, THOUGH THE DEMAND FOR DURABLES MAY BE SLACKENING AFTER THE PRE-VAT BUYING BOOM. THE FINANCE HOUSE BASE RATE WAS REDUCED 1/2 PER CENT TO 10-1/2 PER CENT. THE MINIMUM LENDING RATE REMAINS AT 8-1/4 PER CENT. END SUMMARY

1. STERLING HAS CONTINUED STRONG AND ROSE 54 POINTS ON MAY 2 TO \$2.4936-1/2, THE HIGHEST LEVEL SINCE THE MARCH MONETARY CRISIS. THE RISE WAS DUE TO CONCERN OVER EVENTS IN THE U. S. AND BY A RELATIVELY STRONG DEMAND FOR SHORT-TERM STERLING DEPOSITS IN THE EURO-CURRENCY MARKET. THE RATE FELL BACK 44 POINTS ON MAY 3 AND CLOSED AT \$2.4892-1/2.

2. OFFICIAL U. K. RESERVES ROSE BY \$82 MILLION IN APRIL TO STAND AT \$6,118. A LARGE PART OF THE INCREASE, \$75 MILLION, WAS ACCOUNTED FOR BY THE PROCEEDS OF BORROWING IN THE INTERNATIONAL CAPITAL MARKET BY U. K. PUBLIC AUTHORITIES. THREE BORROWINGS TOOK PLACE: \$35 MILLION BY THE CORPORATION OF THE CITY OF LONDON; \$25 MILLION BY THE CITY OF COVENTRY; AND \$15 MILLION BY THE CITY AND COUNTY OF BRISTOL. A FURTHER SUBSTANTIAL IMPACT FROM FOREIGN CURRENCY BORROWING IS EXPECTED IN MAY AND IN THE MONTHS AHEAD, WITH THE EFFECTS OF THE ELECTRICITY COUNCIL'S \$1 BILLION BORROWING STILL TO BE FELT. RESERVES OF \$6,118 MILLION ARE EQUIVALENT TO 2,458 MILLION POUNDS AT THE EXCHANGE RATE OF \$2.4895 (CLOSING RATE ON APRIL 30, OR 2,113 MILLION POUNDS AT THE EXCHANGE RATE OF \$2.89524 (PARITY RATE).

3. THE LATEST QUARTERLY CBI INDUSTRIAL TRENDS SURVEY PROVIDE CONSISTENT EVIDENCE OF A FURTHER SUBSTANTIAL EXPANSION IN THE LEVEL OF MANUFACTURING ACTIVITY: NEW ORDERS AND OUTPUT - ALBEIT IN VALUE TERMS - ARE RISING STRONGLY AND THE

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FORECAST TRENDS ARE BUOYANT. EXPORT TRENDS ALSO APPEAR FAVORABLE. IN ADDITION TO CONCERN ABOUT INFLATION, THE PROBLEMS THAT THE 1,295 FIRMS RESPONDING TO THE SURVEY FACE ARE NOW INCREASINGLY OF A SUPPLY RATHER THAN A DEMAND NATURE. THE RESULTS OF THE SURVEY ARE THE MOST OPTIMISTIC THE CBI HAS PRODUCED SINCE IT STARTED THIS TYPE OF STUDY IN 1958. ON EXPORTS, THE SURVEY INDICATED THAT EXPORT ORDERS AND DELIVERIES WERE COMING THROUGH

WELL. THE LEVEL OF OPTIMISM AMONG EXPORTS WAS HIGHER THAN
AT ANY TIME SINCE THE PERIOD IMMEDIATELY FOLLOWING THE 1967
DEVALUATION. INVESTMENT IN BUILDINGS AND PLANT AND MACHINERY
IN THE NEXT 12 MONTHS IS ALSO EXPECTED TO RISE SHARPLY.

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DEPARTMENT PASS TREASURY, COMMERCE, FRB

4. THE NATIONAL ECONOMIC DEVELOPMENT OFFICE (NEDO), IN A
PAPER PRESENTED TO THE NATIONAL ECONOMIC DEVELOPMENT
COUNCIL, SEES THE U. K. ECONOMY GROWING AT PRESENT AT AN ANNUAL
RATE OF UP TO 5.7 PER CENT AND OVER THE NEXT 12 MONTHS COULD
EXCEED THE GOVERNMENT' S 5 PER CENT TARGET. THE PAPER STATED
THAT WITH THE CURRENT RATE OF EXPANSION IT WAS INEVITABLE

THAT SOME PRESSURE WOULD DEVELOP ON INDUSTRIAL CAPACITY

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AND THAT CERTAIN SKILLS WOULD BE IN SHORT SUPPLY. THE EVIDENCE SUGGESTED THESE PHENOMENA WERE NOT YET WIDESPREAD, AND THE LABOR SUPPLY WAS MUCH EASIER THAN IN PREVIOUS UPTURNS OF THE ECONOMY. THERE WAS CONFIDENCE THAT BRITAIN SHOULD BE ABLE TO ACHIEVE A REASONABLY SMOOTH TRANSITION FROM RAPID SHORT- TERM RECOVERY TO A SUSTAINED RATE OF GROWTH HIGHER THAN THAT ACHIEVED IN THE PAST.

5. CONSUMER CONFIDENCE CONTINUES TO IMPROVE, BUT THERE IS SHARP CONTRAST BETWEEN SALARIED FAMILIES AND WEEKLY PAID FAMILIES. INFLATIONARY FEARS ARE STILL THE BIGGEST SINGLE CAUSE OF PESSIMISM AMONG THOSE PEOPLE WHO VIEW THE NEXT 12 MONTHS WITH APPREHENSION.

6. THE BASE LENDING RATE PUBLISHED BY THE FINANCE HOUSES ASSOCIATION FELL ON APRIL 30 TO 10-1/2 PER CENT FROM ITS PEAK LEVEL OF 11 PER CENT. THIS FALL REFLECTS THE DROP IN MARKET INTEREST RATES OVER THE PAST MONTH. THE RATE HAS DIRECT IMPACT ON A NUMBER OF LARGE COMMERCIAL LOAN CONTRACTS CARRIED OUT BY THE FINANCE HOUSES, WHERE THE INTEREST RATE IS ALLOWED TO VARY IN LINE WITH THE BASE RATE.

7. THE DISCOUNT OF STERLING WIDENED AT MID- WEEK BUT NARROWED ON THURSDAY.

	4/26	5/3	CHANGE
1 MONTH	0.37-1/2	0.49-1/2	UP 0.12
3 MONTHS	1.12-1/2	1.34-1/2	UP 0.22
6 MONTHS	2.42-1/2	2.72-1/2	UP 0.30

(ALL FIGURES IN CENTS)

8. LOCAL AUTHORITY DEPOSIT RATES ROSE STEADILY DURING THE WEEK.

	4/26	5/3	CHARGE
1 MONTH	8-15/16	9-9/16	UP 5/8
3 MONTHS	9-1/4	9-9/16	UP 5/16
6 MONTHS	9-5/16	9-7/16	UP 1/8

9. EURO- DOLLAR RATES FELL AT ONE MONTH AND THREE MONTHS DURING THE EARLY PART OF THE WEEK BUT ROSE SLIGHTLY ON THURSDAY, AND WERE UNCHANGED AT 6 MONTHS.

	4/26	5/3	CHANGE
1 MONTH	8-1/8	8	DOWN 1/8

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3 MONTHS	8-3/8	8-1/4	DOWN 1/8
6 MONTHS	8-1/2	8-1/2	UNCHANGED

10. GOLD CLOSED AT \$90.45 ON THURSDAY, DOWN 20 CENTS FROM
LAST THURSDAY' S CLOSE. GOLD HAD BEEN FIXED AT \$90. 75
ALL WEEK UNTIL THURSDAY' S FALL OF 30 CENTS.
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*** Current Handling Restrictions *** n/a
*** Current Classification *** UNCLASSIFIED

Message Attributes

Automatic Decaptioning: X
Capture Date: 01 JAN 1994
Channel Indicators: n/a
Current Classification: UNCLASSIFIED
Concepts: n/a
Control Number: n/a
Copy: SINGLE
Draft Date: 04 MAY 1973
Decaption Date: 01 JAN 1960
Decaption Note:
Disposition Action: n/a
Disposition Approved on Date:
Disposition Authority: n/a
Disposition Case Number: n/a
Disposition Comment:
Disposition Date: 01 JAN 1960
Disposition Event:
Disposition History: n/a
Disposition Reason:
Disposition Remarks:
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Document Source: CORE
Document Unique ID: 00
Drafter: n/a
Enclosure: n/a
Executive Order: n/a
Errors: n/a
Film Number: n/a
From: LONDON
Handling Restrictions: n/a
Image Path:
ISecure: 1
Legacy Key: link1973/newtext/t19730536/aaaahvpe.tel
Line Count: 230
Locator: TEXT ON-LINE
Office: ACTION EUR
Original Classification: UNCLASSIFIED
Original Handling Restrictions: n/a
Original Previous Classification: n/a
Original Previous Handling Restrictions: n/a
Page Count: 5
Previous Channel Indicators:
Previous Classification: n/a
Previous Handling Restrictions: n/a
Reference: n/a
Review Action: RELEASED, APPROVED
Review Authority: kellerpr
Review Comment: n/a
Review Content Flags:
Review Date: 03 AUG 2001
Review Event:
Review Exemptions: n/a
Review History: RELEASED <03-Aug-2001 by reddocgw>; APPROVED <17-Aug-2001 by kellerpr>
Review Markings:

Declassified/Released
US Department of State
EO Systematic Review
30 JUN 2005

Review Media Identifier:
Review Referrals: n/a
Review Release Date: n/a
Review Release Event: n/a
Review Transfer Date:
Review Withdrawn Fields: n/a
Secure: OPEN
Status: <DBA CORRECTED> mcm 971205
Subject: ECONOMIC DEVELOPMENTS-- WEEK ENDING MAY 4
TAGS: ECON, UK
To: BERN
BONN
BRUSSELS
COPENHAGEN
DUBLIN
EC BRUSSELS
EUR

LUXEMBOURG
SECSTATE WASHDC

Type: TE

Markings: Declassified/Released US Department of State EO Systematic Review 30 JUN 2005